



The Game changer of South Coast development

**KZN216 Ray Nkonyeni Municipality  
Annual Financial Statements  
for the year ended June 30, 2019  
Auditor General of South africa**

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## General Information

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### Nature of business and principal activities

Local Municipality

### Mayoral committee

Executive Mayor

Councillors

Cllr NCP Mqwebu

Cllr Y Nair -Deputy Mayor

Cllr DH Njoko - Speaker

Cllr JS Ndovela

Cllr HC Boyland

Cllr MT Lubanyana

Cllr SA Dlamalala

Cllr MA Mpisi

Cllr VL Ntanza

Cllr WS Ndwane

Cllr D Rawlins

### Grading of local authority

4

### Accounting Officer

Mr. S.M Mbili

### Chief Finance Officer (CFO)

Ms. N.D Gqola

### Registered office

10 Connor Street

Port Shepstone

4240

### Business address

10 Connor Street

Port Shepstone

4240

### Postal address

P.O Box 5

Port Shepstone

4240

### Bankers

Nedbank; ABSA; Standard Bank; First National Bank; Investec

### Auditors

Auditor General of South africa

### Preparer

The annual financial statements were internally compiled by:

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Audit Committee Report	4
Statement of Financial Position	5
Statement of Financial Performance	6 - 7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 32
Notes to the Annual Financial Statements	33 - 74

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## **KZN216 Ray Nkonyeni Municipality**

Annual Financial Statements for the year ended June 30, 2019

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state funding for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

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**Mr. S.M Mbili**  
**Accounting Officer**

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Audit Committee Report

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We are pleased to present our report for the financial year ended June 30, 2019.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 number of meetings were held.

Name of member	Number of meetings attended
Mr P Preston(Chairperson)	4
Mr Z Zulu	2
Mr B Dladla (expiry of contract)	1
Ms B Jojo	4
Ms C Elliott	3

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA , Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review. .

### Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;.

### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

### Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: \_\_\_\_\_

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	4,703,003	4,531,658
Receivables from exchange transactions		14,328,749	12,106,107
Receivables from non-exchange transactions	10&11	134,413,977	99,883,696
VAT receivable	13	7,624,802	19,551,046
Consumer debtors	12	53,508,663	57,174,044
Loan receivable	7	856,339	679,653
Cash and cash equivalents	14	89,839,882	95,257,363
		<b>305,275,415</b>	<b>289,183,567</b>
<b>Non-Current Assets</b>			
Investment property	3	197,751,000	186,042,600
Property, plant and equipment	4	1,515,806,357	1,470,978,337
Intangible assets	5	580,271	684,747
Heritage assets	6	1,651,952	1,636,952
Loan receivable	7	6,321,123	6,654,573
		<b>1,722,110,703</b>	<b>1,665,997,209</b>
Non-Current Assets		1,722,110,703	1,665,997,209
Current Assets		305,275,415	289,183,567
<b>Total Assets</b>		<b>2,027,386,118</b>	<b>1,955,180,776</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Long-term loan	17	8,549,698	9,994,693
Payables from exchange transactions	20	124,373,191	135,460,642
Consumer deposits	21	29,468,120	26,872,671
Employee benefit obligation	15	4,555,000	4,079,000
Unspent conditional grants and receipts	16	31,283,093	24,598,407
Landfill site provision	18	43,188,546	35,092,681
Long service awards	19	2,322,097	2,306,000
		<b>243,739,745</b>	<b>238,404,094</b>
<b>Non-Current Liabilities</b>			
Long-term loan	17	4,790,575	11,164,223
Employee benefit obligation	15	99,029,761	92,955,000
Long service awards	19	17,883,709	16,183,000
		<b>121,704,045</b>	<b>120,302,223</b>
Non-Current Liabilities		121,704,045	120,302,223
Current Liabilities		243,739,745	238,404,094
<b>Total Liabilities</b>		<b>365,443,790</b>	<b>358,706,317</b>
Assets		2,027,386,118	1,955,180,776
Liabilities		(365,443,790)	(358,706,317)
<b>Net Assets</b>		<b>1,661,942,328</b>	<b>1,596,474,459</b>
Accumulated surplus		1,661,942,328	1,596,474,459

\* See Note 52

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	168,504,469	157,187,895
Rental of facilities and equipment	23	4,068,113	3,613,783
Interest received (trading)		20,842,283	17,010,167
Agency services	25	3,644,950	3,428,636
Licences and permits	26	7,374,575	6,026,375
Other income	28	10,263,521	30,325,969
Interest received - investment	29	4,128,751	4,487,707
Fair value adjustments		11,708,400	-
Actuarial gains*		1,815,194	6,267,018
<b>Total revenue from exchange transactions</b>		<b>232,350,256</b>	<b>228,347,550</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	30	403,592,944	385,725,530
<b>Transfer revenue</b>			
Government grants & subsidies	31	273,924,335	271,835,709
Public contributions and donations	32	94,582,667	-
Fines, Penalties and Forfeits	24	17,249,716	8,047,769
Housing revenue		55,022,151	39,767,250
<b>Total revenue from non-exchange transactions</b>		<b>844,371,813</b>	<b>705,376,258</b>
		232,350,256	228,347,550
		844,371,813	705,376,258
<b>Total revenue</b>		<b>1,076,722,069</b>	<b>933,723,808</b>
<b>Expenditure</b>			
Employee related costs	34	(380,241,601)	(360,136,960)
Remuneration of councillors	35	(27,359,807)	(25,954,038)
Depreciation and amortisation	36	(85,686,184)	(85,556,029)
Impairment loss/ Reversal of imperments	37	(28,530,473)	(3,128,466)
Finance costs	39	(21,331,429)	(14,707,783)
Lease rentals on operating lease	27	(34,599,273)	(39,058,623)
Debt Impairment	38	(28,468,152)	(86,864,134)
Bad debts written off		(7,838,713)	(7,732,182)
Bulk purchases	40	(92,102,640)	(87,168,139)
Contracted services	41	(140,292,908)	(123,715,045)
Transfers and Subsidies		(5,096,324)	(5,503,928)
Loss on disposal of assets		(1,965,964)	(792,896)
Fair value adjustments		-	(49,095,096)
General Expenses	42	(158,079,572)	(150,254,121)
<b>Total expenditure</b>		<b>(1,011,593,040)</b>	<b>(1,039,667,440)</b>
		-	-
Total revenue		1,076,722,069	933,723,808
Total expenditure		(1,011,593,040)	(1,039,667,440)
Operating surplus/deficit		-	-
Surplus (deficit) before taxation		65,129,029	(105,943,632)
Taxation		-	-
<b>Surplus (deficit) for the year</b>		<b>65,129,029</b>	<b>(105,943,632)</b>

\* See Note 52

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
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\*During the current financial year there was an actuarial gain amount to R2 812 000 relating to the Employee Benefit obligation (Note 6) and an actuarial loss amounting to R996 806 relating to Long Service awards (Note 16) the net is a gain reporting under revenue.

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\* See Note 52



## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at July 1, 2017</b>	<b>105,829,621</b>	<b>1,596,856,594</b>	<b>1,702,686,215</b>
Changes in net assets			
Transfer to accumulated surplus	(105,829,621)	105,829,621	-
Adjustments in debtors	-	(268,125)	(268,125)
Net income (losses) recognised directly in net assets	(105,829,621)	105,561,496	(268,125)
Surplus for the year	-	(31,794,109)	(31,794,109)
Total recognised income and expenses for the year	(105,829,621)	73,767,387	(32,062,234)
Total changes	(105,829,621)	73,767,387	(32,062,234)
Opening balance as previously reported	-	1,670,623,981	1,670,623,981
Adjustments			
Correction of errors	-	(74,149,523)	(74,149,523)
<b>Restated* Balance at July 1, 2018 as restated*</b>	<b>-</b>	<b>1,596,474,459</b>	<b>1,596,474,459</b>
Changes in net assets			
Surplus for the year	-	65,129,029	65,129,029
Adjustment to debtors	-	338,843	338,843
Total changes	-	65,467,872	65,467,872
<b>Balance at June 30, 2019</b>	<b>-</b>	<b>1,661,942,331</b>	<b>1,661,942,331</b>

Note(s)

\* See Note 52

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		421,902,475	411,779,504
Sale of goods and services		196,992,796	172,406,411
Grants		273,924,335	271,835,709
Interest income		24,971,034	21,497,874
Other receipts		10,263,521	30,325,969
		928,054,161	907,845,467
<b>Payments</b>			
Employee costs		(407,601,408)	(386,090,998)
Suppliers		(441,807,533)	(408,402,276)
Finance costs		(13,300,020)	(13,784,143)
		(862,708,961)	(808,277,417)
Total receipts		928,054,161	907,845,467
Total payments		(862,708,961)	(808,277,417)
<b>Net cash flows from operating activities</b>	43	<b>65,345,200</b>	<b>99,568,050</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(65,136,844)	(81,917,160)
Proceeds from sale of property, plant and equipment	4	-	36,358
<b>Net cash flows from investing activities</b>		<b>(65,136,844)</b>	<b>(81,880,802)</b>
<b>Cash flows from financing activities</b>			
Repayment of long-term loan		(7,818,643)	(10,345,992)
Movement in long service awards		1,716,806	(1,744,474)
Movement in employee obligation		476,000	(3,896,508)
<b>Net cash flows from financing activities</b>		<b>(5,625,837)</b>	<b>(15,986,974)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,417,481)</b>	<b>1,700,274</b>
Cash and cash equivalents at the beginning of the year		95,257,363	93,557,089
<b>Cash and cash equivalents at the end of the year</b>	14	<b>89,839,882</b>	<b>95,257,363</b>

\* See Note 52

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	180,179,370	393,628	<b>180,572,998</b>	168,504,469	<b>(12,068,529)</b>	Note 53
Rental of facilities and equipment	4,532,560	-	<b>4,532,560</b>	4,068,113	<b>(464,447)</b>	note 53
Interest received (trading)	667,865	12,337,488	<b>13,005,353</b>	20,842,283	<b>7,836,930</b>	note 53
Agency services	6,000,000	2,985,176	<b>8,985,176</b>	3,644,950	<b>(5,340,226)</b>	note 53
Licences and permits	10,800,004	(9,114,804)	<b>1,685,200</b>	7,374,575	<b>5,689,375</b>	note 53
Other income - (rollup)	48,183,590	(967,240)	<b>47,216,350</b>	10,263,521	<b>(36,952,829)</b>	note 53
Interest received - investment	20,191,534	(15,488,984)	<b>4,702,550</b>	4,128,751	<b>(573,799)</b>	note 53
<b>Total revenue from exchange transactions</b>	<b>270,554,923</b>	<b>(9,854,736)</b>	<b>260,700,187</b>	<b>218,826,662</b>	<b>(41,873,525)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	404,626,419	772,657	<b>405,399,076</b>	403,592,944	<b>(1,806,132)</b>	note 53
Licences and Permits (Non-exchange)	300,000	(100,000)	<b>200,000</b>	-	<b>(200,000)</b>	note 53

##### Transfer revenue

Government grants & subsidies	273,271,200	5,793,056	<b>279,064,256</b>	273,924,335	<b>(5,139,921)</b>	note 53
Public contributions and donations	-	-	-	94,582,667	<b>94,582,667</b>	
Fines, Penalties and Forfeits	86,586,603	(73,995,824)	<b>12,590,779</b>	17,249,716	<b>4,658,937</b>	note 53
Housing Revenue	126,199,000	10,086,536	<b>136,285,536</b>	55,022,151	<b>(81,263,385)</b>	note 53

<b>Total revenue from non-exchange transactions</b>	<b>890,983,222</b>	<b>(57,443,575)</b>	<b>833,539,647</b>	<b>844,371,813</b>	<b>10,832,166</b>	
'Total revenue from exchange transactions'	270,554,923	(9,854,736)	<b>260,700,187</b>	218,826,662	<b>(41,873,525)</b>	note 53
'Total revenue from non-exchange transactions'	890,983,222	(57,443,575)	<b>833,539,647</b>	844,371,813	<b>10,832,166</b>	note 53
<b>Total revenue</b>	<b>1,161,538,145</b>	<b>(67,298,311)</b>	<b>1,094,239,834</b>	<b>1,063,198,475</b>	<b>(31,041,359)</b>	

#### Expenditure

Personnel	(359,136,118)	(19,400,076)	<b>(378,536,194)</b>	(380,241,601)	<b>(1,705,407)</b>	note 53
Remuneration of councillors	(30,943,097)	2,087,132	<b>(28,855,965)</b>	(27,359,807)	<b>1,496,158</b>	note 53
Depreciation and amortisation	(62,000,000)	3,100,000	<b>(58,900,000)</b>	(85,686,184)	<b>(26,786,184)</b>	note 53
Impairment loss/ Reversal of impairments	-	-	-	(28,530,473)	<b>(28,530,473)</b>	
Finance costs	(9,850,000)	9,850,000	-	(21,331,429)	<b>(21,331,429)</b>	note 53
Lease rentals on operating lease	(30,428,591)	(5,716,056)	<b>(36,144,647)</b>	(34,599,273)	<b>1,545,374</b>	note 53
Debt Impairment	-	-	-	(28,468,152)	<b>(28,468,152)</b>	note 53
Bad debts written off	(3,200,000)	(2,788,660)	<b>(5,988,660)</b>	(7,838,713)	<b>(1,850,053)</b>	note 53
Bulk purchases	(86,620,436)	-	<b>(86,620,436)</b>	(92,102,640)	<b>(5,482,204)</b>	note 53
Contracted Services	(238,650,243)	88,530,752	<b>(150,119,491)</b>	(140,292,908)	<b>9,826,583</b>	note 53
Transfers and Subsidies	(5,704,983)	(853,056)	<b>(6,558,039)</b>	(5,096,324)	<b>1,461,715</b>	note 53

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(108,532,227)	(4,446,569)	<b>(112,978,796)</b>	(158,079,572)	<b>(45,100,776)</b>	note 53
<b>Total expenditure</b>	<b>(935,065,695)</b>	<b>70,363,467</b>	<b>(864,702,228)</b>	<b>(1,009,627,076)</b>	<b>(144,924,848)</b>	
	1,161,538,145	(67,298,311)	<b>1,094,239,834</b>	1,063,198,475	<b>(31,041,359)</b>	note 53
	(935,065,695)	70,363,467	<b>(864,702,228)</b>	(1,009,627,076)	<b>(144,924,848)</b>	note 53
<b>Operating surplus</b>	<b>226,472,450</b>	<b>3,065,156</b>	<b>229,537,606</b>	<b>53,571,399</b>	<b>(175,966,207)</b>	
Loss on disposal of assets and liabilities	-	-	-	(1,965,964)	<b>(1,965,964)</b>	
Fair value adjustments	-	-	-	11,708,400	<b>11,708,400</b>	
Actuarial gains/losses	-	-	-	1,815,194	<b>1,815,194</b>	note 53
	-	-	-	<b>11,557,630</b>	<b>11,557,630</b>	
	226,472,450	3,065,156	<b>229,537,606</b>	53,571,399	<b>(175,966,207)</b>	note 53
	-	-	-	11,557,630	<b>11,557,630</b>	note 53
<b>Surplus before taxation</b>	<b>226,472,450</b>	<b>3,065,156</b>	<b>229,537,606</b>	<b>65,129,029</b>	<b>(164,408,577)</b>	
Deficit before taxation	226,472,450	3,065,156	<b>229,537,606</b>	65,129,029	<b>(164,408,577)</b>	note 53
Taxation	-	-	-	-	-	note 53
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>226,472,450</b>	<b>3,065,156</b>	<b>229,537,606</b>	<b>65,129,029</b>	<b>(164,408,577)</b>	

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

##### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or

## Accounting Policies

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### 1.4 Investment property (continued)

- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	10-30 years
Infrastructure		
• Roads and Paving	Straight line	5-30 years
• Electricity	Straight line	10-30 years
• Solid waste and disposal	Straight line	10-30 years
Community		
• Recreational facilities	Straight line	20-30 years
• Buildings and other structures	Straight line	20-30 years
• Improvements	Straight line	20-30 years
Other property, plant and equipment		
• Bins and containers	Straight line	5-10 years
• Computers and office equipment	Straight line	4-5 years
• Furniture and fittings	Straight line	5-10 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.6 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.



# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term loan	Financial asset measured at amortised cost
Receivables from consumers	Financial asset measured at amortised cost
Short term investment deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term loan	Financial liability measured at amortised cost
Creditors	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

## **Accounting Policies**

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### **1.8 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# **KZN216 Ray Nkonyeni Municipality**

Annual Financial Statements for the year ended June 30, 2019

## **Accounting Policies**

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### **1.8 Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.9 Tax**

#### **Value Added Tax**

The municipality is registered with SARS for VAT on the cash basis in accordance with Section 15(2)(a) of the Value Added Tax Act No. 81 of 1991.

### **1.10 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

## **Accounting Policies**

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### **1.11 Inventories (continued)**

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.12 Construction contracts and receivables**

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### **1.13 Impairment of cash-generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

## Accounting Policies

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### 1.13 Impairment of cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

### 1.14 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## Accounting Policies

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### 1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.



## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

## Accounting Policies

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### 1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

The municipality treats its provision for leave pay and bonuses as accruals. The cost of all short-term employee benefits, such as the ones mentioned above are recognised in the period in which the employee renders the related services.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Property rates

The municipality recognises property rates in terms of the Property Rates Act and the municipal rates policy.

The municipality recognises property rates when the taxable event occurs and the asset recognition criteria is met. The taxable event for property rates is the passing of the date on which the tax is levied.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

# **KZN216 Ray Nkonyeni Municipality**

Annual Financial Statements for the year ended June 30, 2019

## **Accounting Policies**

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### **1.19 Revenue from non-exchange transactions (continued)**

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### **Government grants**

Grants received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of the related conditions.

Where there are conditions attached to a grant or transfer that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling the fair value of the asset received.

### **1.20 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.21 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.22 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.23 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.24 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.26 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.27 Budget information

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.



## **KZN216 Ray Nkonyeni Municipality**

Annual Financial Statements for the year ended June 30, 2019

### **Accounting Policies**

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#### **1.29 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

##### **GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 1 (amended): Presentation of Financial Statements**

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

##### **Materiality and aggregation**

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

##### **Statement of financial position and statement of financial performance**

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

##### **Notes structure**

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

#### **Disclosure of accounting policies**

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after April 1, 2020.

#### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue**

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after April 1, 2020.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 18 (as amended 2016): Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 1, 2019

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

### IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after April 1, 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

### IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and

## **Notes to the Annual Financial Statements**

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### **2. New standards and interpretations (continued)**

- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 3. Investment property

	2019			2018		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	197,751,000	-	197,751,000	186,042,600	-	186,042,600

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	186,042,600	11,708,400	197,751,000

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	235,787,696	(49,745,096)	186,042,600

#### Investment property in the process of being constructed or developed

During the 2018/19 financial year the municipality did not have any investment property under construction.

No investment property were pledged as security .

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 3. Investment property (continued)

##### Details of valuation

The effective date of the revaluations was Sunday, June 30, 2019. Revaluations were performed by an independent valuer, Mr Abubaker Rahim [Registered Professional Valuer and a member of the South African Institute of Valuers], of Evaluations. Evaluations is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value as at 30 June 2019.

##### Method of valuation.

The direct sales comparison approach has been used for the majority of properties, however the cost and income approach has also been used.

##### Key assumptions made in the valuation of investment property were as follows

This method involves an analysis of recent sales of similar or comparable properties. It is based on the simple notion that if a property is sold in the open market at a certain price then an identical property would sell at the same price. Since no two properties are identical, (they can never have the same location) necessary comparisons and adjustments must be made to determine the actual value of the particular property.

There were no property interests held under an operating lease that have been classified as Investment property.

There are no restrictions on the realisability of investment property and there were no investment properties that were sold during the 2018/19 financial year.

##### Amounts recognised in surplus or deficit

Rental revenue from Investment property	3,076,373	2,661,787
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## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	69,785,042	-	69,785,042	69,785,042	-	69,785,042
Machinery and Equipment	25,020,504	(20,326,640)	4,693,864	33,510,255	(27,819,178)	5,691,077
Furniture and Equipment	23,814,091	(19,314,552)	4,499,539	29,558,519	(25,948,649)	3,609,870
Motor vehicles	44,250,146	(35,311,379)	8,938,767	44,943,186	(33,376,647)	11,566,539
Computer and Office Equipment	17,060,972	(12,280,500)	4,780,472	22,693,735	(18,180,387)	4,513,348
Infrastructure	1,914,175,293	(1,074,028,724)	840,146,569	1,896,785,741	(1,022,555,687)	874,230,054
Buildings	1,014,470,662	(431,508,558)	582,962,104	907,102,805	(405,520,398)	501,582,407
<b>Total</b>	<b>3,108,576,710</b>	<b>(1,592,770,353)</b>	<b>1,515,806,357</b>	<b>3,004,379,283</b>	<b>(1,533,400,946)</b>	<b>1,470,978,337</b>

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Capital under construction Additions	Donations	Transferred to completed	Write-offs	Depreciation	Impairment loss	Impairment reversal	Total
Land	69,785,042	-	-	-	-	-	-	-	-	69,785,042
Machinery and Equipment	5,691,074	744,218	-	-	-	(120,924)	(1,626,895)	(26,519)	32,910	4,693,864
Furniture and Equipment	3,609,870	601,835	-	1,862,339	-	(42,577)	(1,528,823)	(79,476)	76,372	4,499,540
Motor vehicles	11,566,539	120,000	-	-	-	(166,965)	(2,528,663)	(75,686)	23,542	8,938,767
Computer and Office Equipment	4,513,348	1,885,541	-	380,829	-	(81,239)	(1,820,237)	(110,293)	12,524	4,780,473
Infrastructure	874,230,053	40,859,527	39,229,862	-	(40,859,527)	(3,063,936)	(54,894,060)	(15,355,350)	-	840,146,569
Buildings	501,582,407	17,295,421	22,594,709	92,339,500	(17,295,421)	(803,646)	(23,139,313)	(9,611,552)	-	582,962,105
	<b>1,470,978,333</b>	<b>61,506,542</b>	<b>61,824,571</b>	<b>94,582,668</b>	<b>(58,154,948)</b>	<b>(4,279,287)</b>	<b>(85,537,991)</b>	<b>(25,258,876)</b>	<b>145,348</b>	<b>1,515,806,360</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Capital under construction Additions	Write-offs	Donations	Transferred to completed	Depreciation	Impairment loss	Total
Land	69,785,042	-	-	-	-	-	-	-	69,785,042
Machinery and Equipment	6,863,209	767,125	-	-	-	-	(2,520,660)	-	5,109,674
Furniture and Equipment	4,676,318	279,361	-	-	401,231	-	(1,366,632)	(380,407)	3,609,871
Motor vehicles	14,731,662	-	-	-	-	-	(3,106,863)	(58,260)	11,566,539
Computer and Office Equipment	5,479,780	759,062	-	-	189,174	-	(1,914,665)	-	4,513,351
Infrastructure	892,307,477	40,081,353	38,446,023	(36,358)	-	(42,418,736)	(54,149,706)	-	874,230,053
Buildings	482,712,759	74,619,055	41,532,134	-	-	(75,052,979)	(22,228,561)	-	501,582,408
Bins and containers	565,426	133,455	-	-	-	-	(109,951)	(7,528)	581,402
	<b>1,477,121,673</b>	<b>116,639,411</b>	<b>79,978,157</b>	<b>(36,358)</b>	<b>590,405</b>	<b>(117,471,715)</b>	<b>(85,397,038)</b>	<b>(446,195)</b>	<b>1,470,978,340</b>

##### Expenditure incurred to repair and maintain property, plant and equipment

##### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Land and buildings	5,070,418	6,261,110
Machinery and Equipment	3,736,746	4,756,961
Furniture and office equipment	14,435	67,878
Transport Assets	7,848,037	1,018,982
Infrastructure	23,800,909	35,513,538
	<b>40,470,545</b>	<b>47,618,469</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 5. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,071,292	(2,491,021)	580,271	3,053,707	(2,368,960)	684,747

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Impairment reversal	Total
Computer software, other	684,747	(115,066)	10,590	580,271

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	354,409	488,563	(158,225)	684,747

#### 6. Heritage assets

	2019			2018		
	Valuation	Accumulated impairment losses	Carrying value	Valuation	Accumulated impairment losses	Carrying value
Historical monuments	1,874,617	(222,665)	1,651,952	1,874,617	(237,665)	1,636,952

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Historical monuments	1,636,952	1,651,952

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	1,636,952	1,636,952

#### 7. Loan receivable

At amortised cost: Ugu District Municipality

The loan receivable represents a portion of a loan from Development Bank of South Africa (DBSA) that was paid by erstwhile Hibiscus Coast Municipality on behalf of Ugu District Municipality. The loan arose due to a transfer of powers and functions. Instalments on the loan are payable in December and June each year. The municipality recognises interest income on the portion of the loan payable by Ugu District Municipality at variable interest rate.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>7. Loan receivable (continued)</b>		
<b>Loan receivable</b>		
Non-current portion	6,321,123	6,654,573
Current portion	856,339	679,653
	<b>7,177,462</b>	<b>7,334,226</b>
<b>8. Inventories</b>		
Consumable stores	4,703,003	4,531,658
<b>9. Receivables from exchange transactions</b>		
Sundry debtors	14,328,749	12,106,107
<b>10. Receivables from non-exchange transactions</b>		
Fines	41,281,947	38,366,773
Consumer debtors - Rates	92,420,132	60,911,565
Consumer debtors - Other (Specified)	711,898	605,358
	<b>134,413,977</b>	<b>99,883,696</b>
<b>Receivables from non-exchange transactions impaired</b>		
<b>11. Reconciliation of receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	184,015,475	133,124,853
Fines	194,045,155	186,359,093
Debtors - Other	999,793	652,786
	<b>379,060,423</b>	<b>320,136,732</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(91,595,343)	(72,213,288)
Fines	(152,763,208)	(147,992,320)
Consumer debtors - Other (Specified)	(287,895)	(47,428)
	<b>(244,646,446)</b>	<b>(220,253,036)</b>
<b>Net balance</b>		
Consumer debtors - Rates	92,420,132	60,911,565
Fines	41,281,947	38,366,773
Consumer debtors - Other (Specified)	711,898	605,358
	<b>134,413,977</b>	<b>99,883,696</b>
<b>Rates</b>		
Current (0 -30 days)	1,561,707	75,184
31 - 60 days	1,674,467	4,125,117
61 - 90 days	1,035,486	3,206,684
91 - 120 days	4,764,663	2,780,947
121 - 365 days	1,286,526	17,018,554
> 365 days	82,097,283	33,705,079
	<b>92,420,132</b>	<b>60,911,565</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>11. Reconciliation of receivables from non-exchange transactions (continued)</b>		
<b>Other (specify)</b>		
31 - 60 days	8,482	75,441
61 - 90 days	7,619	58,814
91 - 120 days	88,204	48,399
121 - 365 days	70,570	250,976
> 365 days	537,023	171,728
	<b>711,898</b>	<b>605,358</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	-	-
<b>12. Reconciliation of consumer debtors</b>		
<b>Gross balances</b>		
Electricity	20,942,765	27,089,684
Refuse	35,627,339	39,238,412
Legal fees	3,952,724	7,225,959
Other consumer debtors	29,557,726	23,299,208
	<b>90,080,554</b>	<b>96,853,263</b>
Interest on receivables from exchange transactions for the 2017/18 financial year that was separately disclosed in the financial statement has been included as part of the various types of debtors balances in the current year financial statements and its comparatives.		
<b>Less: Allowance for impairment</b>		
Electricity	(1,930,258)	(3,486,595)
Refuse	(28,281,358)	(20,444,067)
Legal fees	(2,951,956)	(3,912,252)
Other consumer debtors	(3,408,319)	(11,836,305)
	<b>(36,571,891)</b>	<b>(39,679,219)</b>
<b>Net balance</b>		
Electricity	19,012,507	23,603,089
Refuse	7,345,981	18,794,345
Legal fees	1,000,768	3,313,707
Other consumer debtors	26,149,407	11,462,903
	<b>53,508,663</b>	<b>57,174,044</b>
<b>Electricity</b>		
Current (0 -30 days)	11,702,090	18,059,545
31 - 60 days	3,381,484	754,326
61 - 90 days	661,201	503,521
91 - 120 days	380,281	371,990
121 - 365 days	2,186,766	1,451,860
> 365 days	700,685	2,461,847
	<b>19,012,507</b>	<b>23,603,089</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>12. Reconciliation of consumer debtors (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	311,841	7,328
31 - 60 days	261,675	1,117,636
61 - 90 days	1,866,165	894,777
91 - 120 days	1,531,196	791,285
121 - 365 days	3,375,104	5,324,925
> 365 days	-	10,658,394
	<b>7,345,981</b>	<b>18,794,345</b>
<b>Legal fees</b>		
Current (0 -30 days)	-	86,689
31 - 60 days	39,130	5,725
61 - 90 days	17,033	3,564
91 - 120 days	150,112	-
121 - 365 days	794,493	60,887
> 365 days	-	3,156,842
	<b>1,000,768</b>	<b>3,313,707</b>
<b>Other consumer debtors</b>		
Current (0 -30 days)	328,784	3,368,913
31 - 60 days	195,138	364,993
61 - 90 days	265,852	302,940
91 - 120 days	224,095	271,400
121 - 365 days	1,503,482	1,974,880
> 365 days	23,632,056	5,179,777
	<b>26,149,407</b>	<b>11,462,903</b>
<b>Summary of debtors by customer classification</b>		
<b>Total</b>		
Less: Allowance for impairment	-	-
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(39,679,219)	(32,724,103)
Contributions to allowance	-	(6,955,116)
Reversal of allowance	3,107,328	-
	<b>(36,571,891)</b>	<b>(39,679,219)</b>
<b>13. VAT receivable</b>		
VAT	7,624,802	19,551,046
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	42,301	42,301
Bank balances	12,494,239	7,665,698
Short-term deposits	77,303,342	87,549,364
	<b>89,839,882</b>	<b>95,257,363</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
FNB-Primary account-62723734134	12,331,833	7,639,873	12,331,833	7,639,873
First National Bank-Salaries-62730321007	232,059	68,034	232,059	68,034
ABSA Bank-Lousiana HSG-9102815623	8,377,174	8,384,958	8,377,174	8,384,958
ABSA Bank-Nzimakwe 1 HSG-9149474529	539,493	539,992	539,493	539,992
ABSA Bank-Nzimakwe 2 HSG-9149474927	895,668	896,491	895,668	896,491
ABSA Bank-Bhobhoyi SUB-HSG-9149475509	284,407	284,668	284,407	284,668
ABSA Bank-Bhobhoyi EST-HSG-9149475753	12,142	12,648	12,142	12,648
ABSA Bank-Damaged houses-9149475208	69,651	69,715	69,651	69,715
ABSA Bank-Uplands HSG-9149401627	69,587	69,650	69,587	69,650
ABSA Bank-Mkholombe HSG-9149401164	1,268,393	1,269,361	1,268,393	1,269,361
ABSA Bank-AIDS Project-9152775491	126,091	126,207	126,091	126,207
Standard Bank-Masinenge HSG-89140/356988	28,570,475	28,602,159	28,570,475	28,602,159
Standard Bank-KwaMavundla HSG-89139/356986	212,903	213,153	212,903	213,153
Standard Bank-KwaXolo Housing-89141/356989	10,110,552	10,122,421	10,110,552	10,122,421
Standard Bank-KwaDwalane Housing-90439/364623	458,096	458,640	458,096	458,640
Standard Bank-RNM Unspent conditional grants-89111/56985	699,481	10,363,521	699,481	10,363,521
Standard Bank-RNM Accreditation Funds-89111/357732	447,129	397,712	447,129	397,712
Investec Bank-MHOA(Housing Development Fund)-1100/190309	14,222,252	12,799,011	14,222,252	12,799,011
First National Bank-Primary investment account- 62726614151	10,896,847	12,896,634	10,896,847	12,896,634
First National Bank-Petty cash account- 62730320091	15,649	214	15,649	214
<b>Total</b>	<b>89,839,882</b>	<b>95,215,062</b>	<b>89,839,882</b>	<b>95,215,062</b>

#### 15. Employee benefit obligations

##### Defined benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid fund which is associated with the municipality, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund upon retirement. In such cases, the municipality is liable for a portion of the medical aid membership fee. The most recent actuarial valuations were carried out at 30 June 2019 by One Pangae Financial, Fellow of the Faculty of Actuaries and Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

##### Carrying value

Present value of the defined benefit obligation	(97,034,000)	(94,669,000)
Current service cost	(3,995,000)	(4,066,000)
Interest cost	(9,366,000)	(9,360,000)
Contributions paid	3,998,239	3,896,508
Actuarial gain/loss	2,812,000	7,164,492
	<b>(103,584,761)</b>	<b>(97,034,000)</b>
Non-current liabilities	(99,029,761)	(92,955,000)
Current liabilities	(4,555,000)	(4,079,000)
	<b>(103,584,761)</b>	<b>(97,034,000)</b>



## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 15. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	6,351,000	-
Net expense recognised in the statement of financial performance	10,549,000	6,351,000
	<b>16,900,000</b>	<b>6,351,000</b>

#### Net expense recognised in the statement of financial performance

Current service cost	3,995,000	4,066,000
Interest cost	9,366,000	9,360,000
Actuarial (gains) losses	(2,812,000)	(7,075,000)
	<b>10,549,000</b>	<b>6,351,000</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.57 %	9.86 %
Consumer price inflation	6.41 %	6.14 %
Health care cost inflation	7.91 %	7.64 %
Net discount rate	2.47 %	2.06 %

	Years	Years
Normal retirement age	63	63
Fully accrued age	60	60
Mortality	80-90	80-90

#### Members of the Post Medical Subsidy

Active employees	578	575
Continuation pensioners	102	99
	<b>680</b>	<b>674</b>

#### The liability in respect of past service has been estimated as follows:

Active employees	50,823,000	46,631,000
Continuation pensioners	52,681,000	50,403,000
	<b>103,504,000</b>	<b>97,034,000</b>

#### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Systems Improvement Grant(MSIG)	310,863	-
Airport Grant	3,250,000	-
Municipali Infrastructure Grant	1	1
Housing Development fund	22,069,406	18,091,385
Intermodal Facility Grant	5,383,381	5,383,381
Sports Maintenance Grant	-	275,002
Cyber Cadet Grant	-	236,681
Land Use Management Grant(LUMS)	269,442	611,957
	<b>31,283,093</b>	<b>24,598,407</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

#### 16. Unspent conditional grants and receipts (continued)

Refer to note 28 for details.

#### 17. Long-term loan

##### At amortised cost

Bank loan	4,790,575	11,164,223
Terms and conditions		
Bank loan	8,549,698	9,994,693
Terms and conditions		
	<b>13,340,273</b>	<b>21,158,916</b>

<b>Total other financial liabilities</b>	<b>13,340,273</b>	<b>21,158,916</b>
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Standard bank of South Africa

The municipality has a structured unsecured 20 year loan with Standard Bank. The loan is repayable in fixed semi-annual instalments relating to capital and interest in October and April each year. Interest is incurred at a rate of 11.56%p.a

Development Bank of South Africa

The municipality took over a structured unsecured loan with the Development Bank of South Africa as a result of a change in powers and functions of the local municipalities. The loan is payable in variable semi-annual instalments in December and June, over a period of 10-20 years. Interest on the loan is incurred at variable rates.

##### Non-current liabilities

At amortised cost	4,790,575	11,164,223
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##### Current liabilities

At amortised cost	8,549,698	9,994,693
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#### 18. Landfill site provision

##### Environmental rehabilitation provision

The rehabilitation cost provision is for the closure of Outlands landfill site. The provision has been made based on the estimated present value of the future cashflows arising from the closure costs expected as at 30 June 2019.

The costs of rehabilitating the landfill site have been estimated by TGC Engineers. The estimate is based on the following:

1. Capping: The capping comprise a GCL covered by 600mm of soil and 200mm of topsoil. A passive gas extraction system comprising stone grains laid at 20m intervals below the capping has been allowed for.

2. The extent of the works cover cells 1 to 4. The cost of closing future cells will be added when they are opened.

##### Reconciliation of landfill site provision

Opening balance	35,092,682	34,169,042
Current year movement	8,095,864	923,640
	<b>43,188,546</b>	<b>35,092,682</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 19. Long service awards

The long service awards is granted to municipal employees after the completion of fixed periods of continuation service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality as at 30 June 2019 may become entitled to in the future. The provision is based on an actuarial valuation performed at that date. The most recent actuarial valuation was carried out as at 30 June 2019 by One Pangae Expertise and Solutions, fellow of the faculty of Actuaries and Actuarial Society of South Africa. the present value of the obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

#### The amounts recognised in the statement of financial position are as follows:

Non-current liabilities	17,883,709	16,183,000
Current liabilities	2,322,097	2,306,000
	<b>20,205,806</b>	<b>18,489,000</b>

#### Eligible employees

Number of eligible employees	1,131	1,110
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#### Key assumptions used

Discount rate	7.94%	8.81%
Consumer price index	4.28%	5.38%
Salary increase rate	5.28%	6.38%
Net discount rate	2.53%	2.28%
	%	%

#### Age and mortality

Normal retirement age	65	65
Average retirement age	63	63
Mortality	85 - 90	85 - 90
	-	-

#### Amount recognised in the of financial performance under employees costs are as follows:

Current service cost	1,499,000	1,395,000
Interest cost	1,527,000	1,360,000
Actuarial gain/(loss)	(996,806)	(504,000)
	<b>2,029,194</b>	<b>2,251,000</b>

#### The movement in the defined benefit obligation over the years is as follows:

Balance at the beginning of the year	18,489,000	16,581,000
Current service costs	1,499,000	1,395,000
Interest cost	1,527,000	1,360,000
Contributions paid	(2,306,000)	(1,744,474)
Actuarial gain/(loss)	996,806	897,474
	<b>20,205,806</b>	<b>18,489,000</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>20. Payables from exchange transactions</b>		
Trade payables	-	380,275
Consumer debtors advance payments	33,146,253	35,614,083
Creditors Accruals	15,950,357	25,169,678
Accrued leave pay	24,041,925	22,007,673
Accrued bonus	11,361,921	10,404,405
Retentions	21,452,440	21,578,727
Unknown deposits	13,400,226	11,699,392
Other payables	5,020,069	8,606,409
	<b>124,373,191</b>	<b>135,460,642</b>

### 21. Consumer deposits

Electricity	6,908,017	6,300,919
Building Plans	21,643,483	19,598,345
Other	893,529	905,998
Hall deposits	23,091	67,409
	<b>29,468,120</b>	<b>26,872,671</b>

Building deposits that were previously disclosed as other deposits have been reclassified to Building deposits in the current year and comparative.

### 22. Service charges

Sale of electricity	119,040,707	109,948,397
Refuse removal	49,463,762	47,239,498
	<b>168,504,469</b>	<b>157,187,895</b>

An amount of R951 996 (2018) has been reclassified from refuse removal revenue to skips hire rental revenue, see note 21.

### 23. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	3,076,373	2,661,787
Rental of equipment skip hire	991,740	951,996
	<b>4,068,113</b>	<b>3,613,783</b>
Premises	-	-
Garages and parking	-	-
Facilities and equipment	4,068,113	3,613,783

### 24. Fines, Penalties and Forfeits

Building Fines	1,656	39,552
Illegal Connections Fines	318,661	250,858
Law Enforcement Fines	11,450	2,100
Overdue Books Fines	33,696	40,144
Municipal Traffic Fines	16,884,253	7,715,115
	<b>17,249,716</b>	<b>8,047,769</b>

### 25. Agency services

Driver's Licenses	3,644,950	3,428,636
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## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Licences and permits (exchange)</b>		
Angling/Fishing	5,040	1,884
Hiking Trails	205,010	37,588
Road and Transport	7,164,525	5,986,903
	<b>7,374,575</b>	<b>6,026,375</b>
<b>27. Lease rentals on operating lease</b>		
<b>Motor vehicles</b>		
Contractual amounts	22,923,781	10,988,757
<b>Equipment</b>		
Contractual amounts	1,881,989	7,840,710
<b>Plant and equipment</b>		
Contractual amounts	522,804	478,048
<b>Lease rentals on operating lease - Other</b>		
Contractual amounts	9,270,699	19,751,108
	<b>34,599,273</b>	<b>39,058,623</b>
<b>28. Other income</b>		
Miscellaneous	10,263,521	10,184,868
Technology Hub	-	20,141,101
	<b>10,263,521</b>	<b>30,325,969</b>
<b>29. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	4,128,751	4,487,707
	-	-
	<b>4,128,751</b>	<b>4,487,707</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>30. Property rates</b>		
<b>Rates received</b>		
Residential	306,812,280	292,626,497
Commercial	76,116,498	73,393,455
State	18,090,877	17,249,011
Municipal	161,805	154,103
Public Service infrastructure	6,103,934	5,809,207
Industrial	12,976,262	12,435,813
Multi-purpose	2,932,392	2,457,317
Agriculture	5,865,117	5,480,134
Public Benefit Organisations	983,347	900,427
Special purpose	519,512	483,481
Communal land	70,956	67,599
Vacant land	34,885,542	34,077,487
ST garages/store rooms	634,637	605,655
Less: Adjustments	(1,873,565)	(3,394,666)
Less: Income forgone	(60,686,650)	(56,619,990)
	<b>403,592,944</b>	<b>385,725,530</b>

#### Valuations

Residential	!8,482,771,000	!8,428,466,000
Commercial	4,213,811,000	4,157,613,000
State	996,523,000	986,524,000
Municipal	373,528,000	547,867,000
Public Service Infrastructure	3,234,914,000	3,234,107,000
Industrial	705,014,000	704,748,000
Multi-purpose	217,447,000	210,098,000
Public Benefit Organisations	341,384,000	365,378,000
Carport/garages	58,570,000	58,791,000
	<b>!2,604,808,000</b>	<b>!2,635,020,000</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	185,324,000	175,566,000
Records management grant	-	200,000
Work study grant	-	683,088
Financial Management Grant (FMG)	3,600,000	3,600,000
Cyber Cadet	1,418,681	1,116,786
Expended Public Works Programme(EPWP)	4,061,000	3,306,000
Land Use Management Grant	342,515	388,042
Energy Efficiency Demand Side Management(EEDSM)	6,000,000	4,000,000
Municipal Systems Improvement Grant(MSIG)	744,137	-
Transport Education and Training Authority(TETA)	450,000	-
Museum Grant	368,000	350,000
Municipal Infrastructure Grant	1,220,087	3,130,744
Provincialisation Grant	10,894,000	9,670,000
Sport Grant	275,002	600,000
GIS Enterprise Grant	-	1,300,000
Municipal Dermarcation Transaction Grant	-	8,280,000
Work study	-	16,912
Community Library Service Grant	130,000	144,000
	<b>214,827,422</b>	<b>212,351,572</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant(MIG)	59,096,913	59,484,137
	<b>214,827,422</b>	<b>212,351,572</b>
	<b>59,096,913</b>	<b>59,484,137</b>
	<b>273,924,335</b>	<b>271,835,709</b>
<b>Equitable Share</b>		
Current-year receipts	185,324,000	175,566,000
Conditions met - transferred to revenue	(185,324,000)	(175,566,000)
	-	-
<b>Municipal Systems Improvement Grant(MSIG)</b>		
Current-year receipts	1,055,000	-
Conditions met - transferred to revenue	(744,137)	-
	<b>310,863</b>	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Airport Grant</b>		
Current-year receipts	3,250,000	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Financial Management Grant(FMG)</b>		
Current-year receipts	3,600,000	3,600,000
Conditions met - transferred to revenue	(3,600,000)	(3,600,000)
	-	-

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Government grants and subsidies (continued)</b>		
<b>Municipal Infrastructure Grant(MIG)</b>		
Balance unspent at beginning of year	1	1
Current-year receipts	60,317,000	62,615,000
Conditions met - transferred to revenue	(60,317,000)	-
Other	-	(62,615,000)
	<b>1</b>	<b>1</b>
<b>Work Study grant</b>		
Balance unspent at beginning of year	-	700,000
Conditions met - transferred to revenue	-	(700,000)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
<b>Intermodal Facility Grant</b>		
Balance unspent at beginning of year	5,383,381	5,383,381
<b>Sports Maintenance Grant</b>		
Balance unspent at beginning of year	275,002	875,002
Conditions met - transferred to revenue	(275,002)	(600,000)
	-	<b>275,002</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Cyber Cadet Grant</b>		
Balance unspent at beginning of year	236,681	225,467
Current-year receipts	1,182,000	1,128,000
Conditions met - transferred to revenue	(1,418,681)	(1,116,786)
	-	<b>236,681</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Land Use Management Grant(LUMS)</b>		
Balance unspent at beginning of year	611,957	1,000,000
Conditions met - transferred to revenue	(342,515)	(388,043)
	<b>269,442</b>	<b>611,957</b>
Conditions still to be met - remain liabilities (see note 16).		
<b>Expended Public Works Programme(EPWP)</b>		
Current-year receipts	4,061,000	3,306,000
Conditions met - transferred to revenue	(4,061,000)	(3,306,000)
	-	-
<b>Energy Efficiency and Demand Side Management</b>		



## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Government grants and subsidies (continued)</b>		
Current-year receipts	6,000,000	4,000,000
Conditions met - transferred to revenue	(6,000,000)	(4,000,000)
	-	-
<b>Transport Education and Training Authority(TETA)</b>		
Current-year receipts	450,000	-
Conditions met - transferred to revenue	(450,000)	-
	-	-
<b>Museum Grant</b>		
Current-year receipts	368,000	350,000
Conditions met - transferred to revenue	(368,000)	(350,000)
	-	-
<b>Provincialisation of libraries Grant</b>		
Current-year receipts	10,894,000	9,670,000
Conditions met - transferred to revenue	(10,894,000)	(9,670,000)
	-	-
<b>Dermarcation Transaction Grant</b>		
Current-year receipts	-	8,280,000
Conditions met - transferred to revenue	-	(8,280,000)
	-	-
<b>Community Library Services Grant</b>		
Current-year receipts	130,000	144,000
Conditions met - transferred to revenue	(130,000)	(144,000)
	-	-
<b>32. Public contributions and donations</b>		
Port Shepstone Library	69,513,655	-
Port Shepstone Museum	22,825,845	-
Port Shepstone Library - Furniture	1,862,339	-
Port Shepstone Library - Computer	380,829	-
	<b>94,582,668</b>	-
Receivable from non-exchange, donations in-kind, have been measured at fair value in accordance with Grap 23 and because these assets were newly constructed and donated to the Municipality and they are of a specialised nature with no active market the fair value has be measured using the reproduction cost method in accordance with Grap 17 paragraph 38.		
<b>33. Fair value adjustments</b>		
Investment property (Fair value model)	11,708,400	(49,095,096)

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. Employee related costs</b>		
Basic	231,601,435	220,665,159
Bonus	24,465,011	21,154,079
Medical aid - company contributions	16,921,613	16,191,752
UIF	1,953,305	1,887,969
Telephone allowance	646,548	721,226
Leave pay provision charge	5,891,139	4,525,448
Night shift allowance	406,041	730,298
Relief driver allowance	-	50,550
Defined contribution plans	3,995,000	4,066,000
Travel, motor car, accommodation, subsistence and other allowances	-	1,404,779
Overtime payments	18,132,100	18,128,016
Long-service awards	1,499,000	1,395,000
Acting allowances	101,118	909,154
Car allowance	13,655,766	12,128,743
Housing benefits and allowances	3,174,873	3,235,532
Bargaining Council Levy	107,099	110,045
Standby allowances	3,629,795	2,326,626
Pension fund	42,306,359	39,709,565
Life Insurance	352,223	207,410
Uniform allowances	76,329	90,000
Senior management	11,326,847	10,499,609
	<b>380,241,601</b>	<b>360,136,960</b>

#### Remuneration of Municipal Manager

Annual Remuneration	1,518,277	1,390,921
Subsistence and Travel	8,197	11,125
Performance bonuses	195,339	180,216
	<b>1,721,813</b>	<b>1,582,262</b>

#### Remuneration of Chief Finance Officer

Annual Remuneration	1,368,926	1,228,464
Cellphone Allowance	12,000	12,000
Performance Bonuses	126,360	138,600
Subsistence and Travel	3,985	19,054
	<b>1,511,271</b>	<b>1,398,118</b>

#### Remuneration of Head of Department Development Planning Services

Annual Remuneration	1,261,515	1,160,569
Performance Bonuses	129,563	152,764
Subsistence and Travel	58,835	18,908
Cellphone Allowance	12,000	12,000
	<b>1,461,913</b>	<b>1,344,241</b>

#### Remuneration of Head of Department Community Services

Annual Remuneration	1,037,147	965,960
Cellphone Allowance	12,000	12,000
Performance Bonuses	126,360	109,945
Subsistence and Travel	6,748	4,472
	<b>1,182,255</b>	<b>1,092,377</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 34. Employee related costs (continued)

##### Remuneration of Head of Department Corporate Services

Annual Remuneration	1,262,498	1,025,645
Performance Bonuses	150,874	86,788
Subsistence and Travel	18,715	11,613
Cellphone Allowance	12,000	12,000
	<b>1,444,087</b>	<b>1,136,046</b>

##### Remuneration of Head of Department Strategic Planning and Governance

Annual Remuneration	1,158,984	1,118,491
Cellphone Allowance	12,000	12,000
Performance Bonuses	123,034	115,677
Subsistence and Travel	38,471	54,158
	<b>1,332,489</b>	<b>1,300,326</b>

##### Remuneration of Head of Department Technical services

Annual Remuneration	1,092,096	1,123,848
Cellphone Allowance	12,000	12,000
Performance Bonuses	102,564	147,226
Subsistence and Travel	12,423	19,453
	<b>1,219,083</b>	<b>1,302,527</b>

##### Remuneration of Head of Department Public Safety

Annual Remuneration	1,318,902	1,177,847
Cellphone Allowance	12,000	12,000
Performance Bonuses	123,034	143,964
Subsistence and allowance	-	9,901
	<b>1,453,936</b>	<b>1,343,712</b>

EPWP salaries that were erroneously disclosed as a separate expenditure item under general expenses have been reclassified to employee cost in the current and comparative financial year.

#### 35. Remuneration of councillors

Executive Major	875,375	760,826
Deputy Executive Mayor	731,309	3,208,658
Mayoral Committee Members	9,143,344	7,276,036
Speaker	708,549	608,658
Councillors	15,901,230	14,099,860
	<b>27,359,807</b>	<b>25,954,038</b>

##### In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor, deputy Mayor and Speaker have use of Council owned vehicles for official duties.

The Mayor, Deputy Mayor and Speaker have full-time bodyguards.

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>36. Depreciation and amortisation</b>		
Property, plant and equipment	85,571,119	85,553,855
Intangible assets	115,065	2,174
	<b>85,686,184</b>	<b>85,556,029</b>
<b>37. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	28,556,063	3,617,029
<b>Reversal of impairments</b>		
Intangible assets	(10,590)	(488,563)
Heritage assets	(15,000)	-
	<b>(25,590)</b>	<b>(488,563)</b>
	28,556,063	3,617,029
	(25,590)	(488,563)
<b>Total impairment losses (recognised) reversed</b>	<b>28,530,473</b>	<b>3,128,466</b>
<b>38. Debt impairment</b>		
Debt impairment	28,468,152	86,864,134
<b>39. Finance costs</b>		
Financial instruments at amortised cost	10,438,429	3,987,779
Employee benefit obligation	9,366,000	9,360,004
Long service awards	1,527,000	1,360,000
	<b>21,331,429</b>	<b>14,707,783</b>
<b>40. Bulk purchases</b>		
Electricity - Eskom	92,102,640	87,168,139
<b>Electricity losses</b>		
	Number 2019	Number 2018
Units purchased	93,862,955	94,842,997
Units sold	(84,482,034)	(89,665,406)
<b>Total loss</b>	<b>9,380,921</b>	<b>5,177,591</b>
Comprising of:		
Technical losses	3,752,368	2,071,036
Non-technical losses	5,628,553	3,106,555
<b>Total</b>	<b>9,380,921</b>	<b>5,177,591</b>
Percentage Loss:		
Technical losses	4 %	2 %
Non-technical losses	6 %	3 %
<b>Total</b>	<b>10 %</b>	<b>5 %</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>41. Contracted services</b>		
<b>Outsourced Services</b>		
Administrative and Support Staff	4,897,244	5,043,240
Business and Advisory	2,046,352	-
Catering Services	1,809,585	789,033
Cleaning Services	5,600,481	5,794,211
Clearing and Grass Cutting Services	16,617,901	12,092,592
Hygiene Services	10,000	-
Personnel and Labour	-	215,981
Refuse Removal	6,533,555	6,084,173
Researcher	-	1,742,691
Security Services	20,835,046	10,309,407
Swimming Supervision	11,299,398	9,902,598
Traffic Fines Management	1,587,731	3,917,724
Transport Services	1,278,399	1,855,574
<b>Consultants and Professional Services</b>		
Business and Advisory	7,218,742	10,250,320
Infrastructure and Planning	316,075	107,781
Laboratory Services	366,809	698,938
Legal Cost	3,910,322	2,650,187
<b>Contractors</b>		
Artists and Performers	117,800	32,750
Auctioneers	84,889	-
Catering Services	678,622	516,428
Electrical	5,231,340	505,413
Maintenance of Buildings and Facilities	5,070,418	6,261,110
Maintenance of Equipment	3,736,746	4,756,961
Maintenance of Unspecified Assets	34,052,834	38,789,802
Stage and Sound Crew	179,271	784,717
Shark Nets	6,813,348	613,414
Presented previously	-	-
Outsourced Services	72,515,692	57,747,224
Consultants and Professional Services	11,811,948	13,707,226
Contractors	55,965,268	52,260,595
	<b>140,292,908</b>	<b>123,715,045</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>42. General expenses</b>		
Advertising	2,583,482	1,335,629
Auditors remuneration	4,615,670	5,207,146
Bank charges	1,099,880	1,065,775
Commission paid	1,474,112	1,109,276
Workmens Compensation	2,407,834	3,074,795
Entertainment	256,228	80,796
Fines and penalties	-	1,939,557
Gifts	82,140	148,099
Hire	6,961,563	5,790,422
Insurance	1,993,383	3,941,477
Conferences and seminars	768,178	451,399
IT expenses	7,907,694	3,637,214
Ward committee	2,232,700	2,115,500
Levies	3,342,148	3,103,096
Fuel and oil	17,186,290	15,828,835
Postage and courier	1,821,762	1,451,590
Printing and stationery	570,366	416,418
Protective clothing	4,038,987	2,652,602
Software expenses	168,411	-
Subscriptions and membership fees	3,995,314	4,200,676
Telephone and fax	5,356,935	9,756,839
Travel - local	4,183,155	2,055,687
Utilities - Other	16,106,201	23,508,171
Signage	671,283	791,868
Housing	53,480,510	34,020,371
Management fee	8,371,304	15,319,005
Toll fees	371,546	124,984
Consumables	4,995,561	6,443,930
Bursaries and learnerships	1,036,935	682,964
	<b>158,079,572</b>	<b>150,254,121</b>

In the 2018 financial year Signage expenditure was combined with advertising. signage is a stand alone expenditure in the 2019 financial year and its comparative. EPWP salaries have been reclassified to employee cost.

### 43. Cash generated from operations

Surplus (deficit)	65,129,029	(33,730,344)
<b>Adjustments for:</b>		
Depreciation and amortisation	85,686,184	85,556,029
Loss on sale of assets	1,965,964	792,896
Fair value adjustments	(11,708,400)	49,095,096
Impairment deficit	28,530,473	3,128,466
Debt impairment	28,468,152	14,650,846
Bad debts written off	7,838,713	7,732,182
Public Contributions and Donations	(94,582,667)	-
Actuarial gain/loss	(1,815,194)	(6,267,018)
Other non-cash items	8,031,409	923,640
<b>Changes in working capital:</b>		
Inventories	(171,345)	(1,234,885)
Receivables from exchange transactions	(2,222,642)	23,476,723
Consumer debtors	3,665,381	(8,672,163)
Other receivables from non-exchange transactions	(53,912,331)	(21,661,045)
Payables from exchange transactions	(14,079,219)	(4,690,438)
VAT	11,926,244	(13,157,746)
Consumer deposits	2,595,449	3,625,811
	<b>65,345,200</b>	<b>99,568,050</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>44. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for:</b>		
• Property, plant and equipment	54,812,485	50,250,733
<b>Approved but not yet contracted for:</b>		
• Property, plant and equipment	5,899,054	15,410,418
<b>Total capital commitments</b>		
Already contracted for but not provided for	54,812,485	50,250,733
Not yet contracted for and authorised by accounting officer	5,899,054	15,410,418
	<b>60,711,539</b>	<b>65,661,151</b>
<b>Authorised operational expenditure</b>		
<b>Approved and contracted for:</b>		
• Operating commitments	62,158,329	8,600,967
<b>Total operational commitments</b>		
Already contracted for but not provided for	62,158,329	8,600,967
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	60,711,539	65,661,151
Authorised operational expenditure	62,158,329	8,600,967
	<b>122,869,868</b>	<b>74,262,118</b>

This committed expenditure has been disclosed exclusive of VAT and will be financed by available retained surpluses, existing cash resources, funds internally generated and government grants.

#### Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. . No contingent rent is payable.

Item	Within 1 year	Later than 1 year not later than 5 years	Later than 5 years	Total
Buildings	1,745,195	882,830	-	2,628,025
Equipment	345,542	144,834	-	490,376
Fleet	22,622,694	25,784,420	-	48,407,114
	<b>24,713,431</b>	<b>26,812,084</b>	<b>-</b>	<b>51,525,515</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>45. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>Contingent liabilities</b>		
<b>HUME HOUSING (QUANTUM)</b>		
Dispute related to interpretations of court order	4,045,000	4,045,000
<b>JD CHETTY</b>		
Pothole Claim	15,208	-
<b>GERHARDUS VAN DER MERWE</b>		
Pothole Claim	60,307	-
<b>Y MASHALABA &amp; ASSOCIATES</b>		
Contractual Dispute	198,400	-
<b>WJ VAN ZYL</b>		
Damage claim	-	13,862
<b>TAURUS GARDEN TRADING (Pty) Ltd</b>		
Contractual dispute	18,234,347	6,975,113
<b>K WARRICKER</b>		
Pothole damage claim	432,337	432,337
<b>CD MDLAZI</b>		
Verbal agreement	-	100,000
<b>VOX TELECOMMUNICATIONS</b>		
Unauthorised service fee charge	395,381	395,381
<b>THABIMNDENI CONSTRUCTION AND PROJECTS AND SIKA ENGINEERING AND PROJECT MANAGERS cc</b>		
Breach of contract counter claim	2,156,211	63,242
<b>S HLOPE</b>		
Damages to vehicle due to potholes	5,996	5,996
<b>P T NAUDE</b>		
Defamation of character claim	1,317,325	1,317,325
<b>T R AUDAN</b>		
Unlawful alienation of property	6,110	6,110
	<b>26,866,622</b>	<b>13,354,366</b>

Claim amounts are relatively certain as they are derived from Source documents such as Summonses that are served on the Municipality. The predictability of outcomes/level of certainty that the Municipality will be required to pay out claims is not easy to determine as this factor depends on the outcome of court processes. Also, there is uncertainty as to when litigated matters can be finalized due to unpredictable external circumstances like availability of witnesses for example, and the nature of court rules and litigation processes. If the Municipality is successful in a case and/or if the court orders costs in its favour, then it can recover taxed or agreed costs. There is no certainty of the court granting such an order whether the Municipality is successful or not and as to what costs can be recovered, as costs, if awarded, are subject to taxation (a separate an post award process at court) or on agreement.



## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 46. Related parties

Relationships		
Ugu District Municipality	Inter governmental relations	
Ugu South Coast Tourism	Inter governmental relations	
Key management personnel	Refer to employee related cost note	
Councillors	Refer to remuneration of councillors note	
Ugu South Coast Development Agency	Inter governmental relations	

#### Related party transactions

##### Grants to related parties

Ugu South Coast Tourism	2,883,705	2,638,188
Ugu South Coast Development Agency	600,000	-

##### Secondments from and to related parties

From Ugu District Municipality	400,000	363,000
To Ugu District Municipality	573,245	356,552

#### 47. Fruitless and wasteful expenditure

Opening balance as previously reported	932,391	141,426
<b>Opening balance as restated</b>	<b>932,391</b>	<b>141,426</b>
City of Choice Travel- cancelled booking	2,807	2,101
G4S - Cash Collection	-	32,002
SARS - fine relating to incorrect VAT claim	-	557,640
Dark or Blue Projects - Incorrect supplier paid	-	199,222
Telkom - interest	17,938	-
Eskom - interest	82,070	-
Interest Other	44,878	-
Written-off by Council	(701,167)	-
<b>Closing balance</b>	<b>378,917</b>	<b>932,391</b>

#### 48. Irregular expenditure

Opening balance as previously reported	94,594,290	36,879,712
<b>Opening balance as restated</b>	<b>94,594,290</b>	<b>36,879,712</b>
Add: Irregular Expenditure - prior period	-	57,714,578
Less: Amount written off - current	(732,721)	-
Irregular Expenditure - Current	95,664,079	-
<b>Closing balance</b>	<b>189,525,648</b>	<b>94,594,290</b>

#### Details of irregular expenditure - under investigation

This is a historic expenditure inherited from the Erstwhile Ezinqoleni Local Municipality in 2016 and RNM has no powers to write-off until completion of the investigation by the external agency as per the recommendations of the forensic investigation report.

Disciplinary steps taken/criminal proceedings: Under investigation	35,923,087	35,923,087
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## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>49. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	3,649,996	3,877,795
Amount paid - current year	(3,649,996)	(3,877,795)
	-	-
<b>Audit fees</b>		
Current year subscription / fee	5,305,600	4,956,677
Amount paid - current year	(5,305,600)	(4,956,677)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	55,974,467	49,813,710
Amount paid - current year	(55,974,467)	(49,813,710)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	91,898,922	84,675,335
Amount paid - current year	(91,898,922)	(84,675,335)
	-	-
<b>VAT</b>		
VAT receivable	7,624,802	19,551,046

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 49. Additional disclosure in terms of Municipal Finance Management Act (continued)

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Y Booysen	765	-	765
Councillor A Damas	301	-	301
Councillor R Gumbi	2,430	43,096	45,526
Councillor L Ntanza	3,649	50,186	53,835
Councillor S Nkomo	1,275	3,994	5,269
Councillor B Ngalo	1,390	4,830	6,220
	<b>9,810</b>	<b>102,106</b>	<b>111,916</b>

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor S Breedt	1,005	4,577	5,582
Councillor S Chetty	3,314	667	3,981
Councillor A Damas	1,794	9,787	11,581
Councillor R Gumbi	1,413	44,773	46,186
Councillor B Ngalo	706	4,415	5,121
Councillor S Nkomo	607	2,692	3,299
Councillor V L Ntanza	1,885	37,287	39,172
	<b>10,724</b>	<b>104,198</b>	<b>114,922</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

##### 50. Auditors' remuneration

Fees	4,615,670	5,207,146
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##### 51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations in the period are detailed below:

##### Section 36 Deviations

In an emergency - s36(1)(a)(i)	513,185	1,049,094
Impractical or impossible to follow the official procurement process - s36(1)(a)(v)	7,444,325	3,027,429
	<b>7,957,510</b>	<b>4,076,523</b>

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

##### Trade and other payables

The following prior period errors adjustments occurred:

Income and expenditure was incorrectly recorded as liabilities in the statement of financial position. Correction of error also had an effect on prior year VAT receivable balance.

The effect of the errors are as follow:

Statement of Financial position	30 June 2018	30 June 2017	Total
Increase / (Decrease) VAT	36,919	-	36,919
(Increase) / Decrease Other payables	(1,208,332)	-	(1,208,332)
	<b>(1,171,413)</b>	<b>-</b>	<b>(1,171,413)</b>
<hr/>			
Statement of financial Performance	30 June 2018	30 June 2017	Total
Increase / (Decrease) interest investments	649,478	-	649,478
Increase / (Decrease) interest trading	22,615	-	22,615
(Increase) / Decrease lease rental on operating lease	(1,436,327)	-	(1,436,327)
(Increase) / Decrease contracted service	(17,746)	-	(17,746)
(Increase) / Decrease general expenses	(389,433)	-	(389,433)
	<b>(1,171,413)</b>	<b>-</b>	<b>(1,171,413)</b>

##### Government grants and subsidies

In the prior year the Integrated National Energy Programme grant was treated as a condition grant will revenue and expenditure recognised in the income statement. As the Municipality does not have an electricity license in the areas where the grant was spent i.e) Cluster 1 Ezingoleni area, it is required that the grant be treated as an off balance sheet transaction. The error has no impact on the Statement of Financial Position.

The effect of the error are as follow:

Statement of financial Performance	30 June 2018	30 June 2017	Total
Increase/(Decrease) Government grants and subsidies	(14,000,000)	-	(14,000,000)
(Increase) / Decrease general expenses	13,203,529	-	13,203,529
Increase/(Decrease) Other income	796,471	-	796,471
	<b>-</b>	<b>-</b>	<b>-</b>

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 52. Prior-year adjustments (continued)

#### Unspent conditional Grants

In the prior year work study grant was reported having an unspent portion, however, the grant was fully spent in the prior year.

The effect of the error are as follow:

Statement of Financial position	30 June 2018	30 June 2017	Total
(Increase) / Decrease Unspent conditional grants	16,912	-	16,912
(Increase) / Decrease Accumulated surplus	(16,912)	-	(16,912)
	-	-	-

Statement of financial Performance	30 June 2018	30 June 2017	Total
Increase/ (Decrease) Governemnt grants and subsidies	16,912	-	16,912

#### Property, Plant and Equipment

A road in Ezinqoleni area, Zuluziphathe road, was incorrectly capitalised in the fixed asset register in the prior year.

The effect of the error are as follow:

Statement of Financial position	30 June 2018	30 June 2017	Total
Increase/ (Decrease) in PPE	(142,898)	-	(142,898)

Statement of financial Performance	30 June 2018	30 June 2017	Total
(Increase)/ Decrease in Loss on disposal of assets	142,898	-	142,898

#### Investment property

Portion erf 1484 Port Shepstone was erroneously included in the fixed asset register.

The effect of the error are as follow:

Statement of Financial position	30 June 2018	30 June 2017	Total
Increase/ (Decrease) in Investment property	(650,000)	-	(650,000)

Statement of financial Performance	30 June 2018	30 June 2017	Total
(Increase)/ Decrease in loss on disposal of assests	650,000	-	650,000

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 52. Prior-year adjustments (continued)

##### Intangible assets

A GIS system that was procured in the prior financial year was erroneously expensed in the prior year.

The effect of the error are as follow:

Statement of Financial position	30 June 2018	30 June 2017	Total
Increase/ (Decrease) in Intangible	486,389	-	486,389
<hr/>			
Statement of financial Performance	30 June 2018	30 June 2017	Total
(Increase)/ Decrease in amortisation	(2,175)	-	(2,175)
(Increase)/ Decrease in impairment loss/reversal	488,563	-	488,563
	<b>486,388</b>	<b>-</b>	<b>486,388</b>

##### Mapping errors

During the preparation and review offinancial statements it was noted that there were asset segments that were erroneously mapped to payables and payables segemnets that were erroneously mapped to debtor in prior year that resulted in the overstatement of both debtors and payables by the same amount.

The impact of the mapping correction on the statement of financial position is as follows:

Statement of Financial position	30 June 2018	30 June 2017	Total
Increase/ (Decrease) in other debtors	(27,905,005)	-	(27,905,005)
(Increase)/ DecreaseOther payables	27,905,005	-	27,905,005
	-	-	-

A Segment relating to Fines and penalties expenditure was incorrectly mapped to licences and permits revenue understating revenue and understating expenditure by the same amount in the prior year.

Statement of financial performance	30 June 2018	30 June 2017	Total
Increase/ (Decrease) in fines and penalties expenditure	933,257	-	933,257
Increase/ (Decrease) in licences and permits revenue	(933,257)	-	(933,257)
	-	-	-

##### Traffic Fines Debtors

Traffic fines that were issued prior to 1 July 2014 (older than 5 years) that were issued the municipality erstwhile Hibiscus Coast Municiplaity Municipality are considered irrecoverable due to the slow payment of offenders for these fines. These fines were impaired in the previous financial years instead of being written off. Due to the fact that the earstwhile Hibiscus Coast Municipality no longer exists the correction of the prior period error has been done in the 2016/17 financial year as required by paragraph 44 of Grap 3.

The impact of the correction of error is as follows:

Statement of financial performance	30 June 2018	30 June 2017	Total
(Increase)/ Decrease in Debt impairment/ reversal	-	79,556,048	79,556,048
(Increase)/ Decrease Bad debts written-off	-	(79,556,048)	(79,556,048)
	-	-	-

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 52. Prior-year adjustments (continued)

##### Statement of financial Position

	30 June 2018	30 June 2017	Total
(Decrease)/ Increase in Gross Traffic fines debtors	-	(79,556,048)	(79,556,048)
(Decrease)/ Increase in Accumulated impairment for Traffic fines	-	79,556,048	79,556,048
	-	-	-

#### Property Rates Debtors Impairment

The municipality previously did not impair property on the premise that property rates are recoverable due to the fact that previously property could not be transferred with out a rates clearance certificate. With the changes in legislation that enabled property owners to transfer property even if rates are outstanding. This triggered the need to assess our debtors for impairment in accordance with Grap 104 and to process an impairment in prior year.

The impact of the change is as follows:

##### Statement of financial performance

	30 June 2018	30 June 2017	Total
(Decrease)/ Increase in Debt Impairment	72,213,288	-	72,213,288
Subtotal	72,213,288	-	72,213,288
	72,213,288	-	72,213,288

##### Statement of financial Position

	30 June 2018	30 June 2017	Total
(Decrease)/ Increase in Accumulated Impairment for Property Rates Debtors	72,213,288	-	72,213,288
Subtotal	72,213,288	-	72,213,288
	72,213,288	-	72,213,288

#### Unknown Deposits

An amount that relates to rental deposit for properties that are rented by the municipality was erroneously processed in the unknown deposit account.

The impact of the change is as follows:

##### Statement of financial Position

	30 June 2018	30 June 2017	Total
(Decrease)/ Increase in Sundry Debtors	125,058	-	125,058
(Decrease)/ Increase in Unknown Deposits	(125,058)	-	(125,058)
	-	-	-

#### 53. Change in estimate

##### PPE

A change in the estimated remaining useful life of various assets of the Municipality based on their condition assesment conducted as at 30 June 2019 will resulted in the following decreases in depreciation for property plant and equipment in the 2019 financial year and future periods:

The impact on the statement of financial performance (Depreciation) in the 2019 financial year and future periods:

Infrastructure Assets	2,495,249	-
Buildings	3,209	-
Intangible assets	321,165	-
	2,819,623	-

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

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Figures in Rand	2019	2018
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#### 54. Comparative figures

Certain comparative figures have been reclassified. As a result certain line items as well as their respective notes have been amended.

The effects of the reclassification are as follows:



# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>54. Comparative figures (continued)</b>		
<b>Rental of facilities revenue</b>		
Audited amount	-	2,721,385
Reclassified from service charges and other income	-	892,398
	-	<b>3,613,783</b>
<b>Other income</b>		
Audited amount	-	29,469,901
Reclassified from rental of facilities	-	59,598
Correction of prior period error	-	796,471
	-	<b>30,325,970</b>
<b>Employee cost</b>		
Audited amount	-	(356,703,992)
Reclassified from General expenses	-	(3,432,968)
	-	<b>(360,136,960)</b>
<b>General expenses</b>		
Audited amount	-	(152,364,399)
Reclassification to employees cost	-	3,432,968
Correction of error - refer to error note	-	12,814,096
	-	<b>(136,117,335)</b>
<b>Service charges</b>		
Audited amount	-	158,139,890
Reclassified to rental of facilities	-	(951,996)
	-	<b>157,187,894</b>
<b>Interest received - Investments</b>		
Audited amount	-	3,838,229
Correction of error - refer to error note	-	649,478
	-	<b>4,487,707</b>
<b>Interest trading</b>		
Audited amount	-	16,987,616
Correction of error - refer to error note	-	22,615
	-	<b>17,010,231</b>
<b>Lease rental on operating lease</b>		
Audited amount	-	(37,622,296)
Correction of error - refer to error note	-	(1,436,327)
	-	<b>(39,058,623)</b>
<b>Contracted services</b>		
Audited amount	-	(136,900,828)
Correction of error - refer to error note	-	(17,746)
	-	<b>(136,918,574)</b>
<b>Government grants and subsidies</b>		
Audited amount	-	285,818,779

# KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>54. Comparative figures (continued)</b>		
Correction of error - refer to error note	-	(14,000,000)
Correction of error - refer to error note	-	16,912
	-	<b>271,835,691</b>

### 55. Risk management

#### Financial risk management

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

##### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 56. Budget differences

#### Material differences between budget and actual amounts

##### Reasons for differences identified in the Statement of Comparison of Budget and Actual:

##### Revenue from exchange transactions

**Service charges:** Revenue derived from sale of electricity and refuse removal was lesser than anticipated.

**Rental of facilities and equipment:** Rental income from facilities was slightly less than anticipated.

**Interest received (trading):** Increase in consumer debtors outstanding balance resulting in more interest charged.

**Agency services:** Lesser revenue from drivers licenses than originally planned.

**Licences and permits:** More revenue has been received from motor licencing than anticipated.

**Other income - (rollup):** Less income received from other sources like hall hire, fire charges, parking and rank fees, town planning, signage, business licenses etc.

**Interest received - investment:** Interest received from investments accounts was lesser than estimated.

##### Revenue from non-exchange transactions

**Property rates:** Slightly more rebates on property rates than estimated.

**Licences and Permits:** Less income received from licences and permits.

## KZN216 Ray Nkonyeni Municipality

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 56. Budget differences (continued)

**Government grants & subsidies:** Less revenue from grants than anticipated, eg TETA, WSP.

**Fines, Penalties and Forfeits:** More revenue from fines.

**Housing Revenue:** Less revenue from housing grants received.

#### Expenditure

**Personnel:** Slightly higher due EPWP reclassification from general expenses.

**Remuneration of councillors:** Lesser gazetted councillors remuneration than originally estimated.

**Finance costs:** Interest incurred is more than anticipated.

**Lease rentals on operating lease:** Slightly less than anticipated.

**Bad debts written off:** More write - offs than anticipated due to indigent households and other approved debtors write off.

**Bulk purchases:** More purchases of electricity to Eskom than originally estimated.

**Contracted Services:** Less was spent and savings derived from some contracted services.

**Transfers and Subsidies:** Grants and donations lesser than planned.

**General Expenses:** Slight savings on some general expense items.